

Message Text

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ORIGIN EB-06

INFO OCT-01 NEA-06 ISO-00 TRSE-00 AID-05 CIAE-00 DODE-00

PM-03 H-01 INR-05 L-01 NSAE-00 NSC-05 PA-01 RSC-01

PRS-01 SP-02 SS-15 USIA-06 ACDA-05 IO-04 OES-02 FEA-01

IGA-01 OMB-01 /073 R

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----- 005285

R 251751Z OCT 74

FM SECSTATE WASHDC

TO AMEMBASSY NEW DELHI

LIMITED OFFICIAL USE STATE 235491

E.O. 11652: N/A

TAGS: EFIN, IN

SUBJECT: STATE DEPARTMENT LETTERS ON NUCLEAR EXPLOSION
AND DEBT RELIEF

REF: NEW DELHI 14036

1. FOLLOWING (IN PARA. 3) IS TEXT LETTER SENT ON OR ABOUT
10 OCTOBER (NOT ALL LETTERS DATED SAME DAY) TO 24 SELECTED
CONGRESSMEN REGARDING INDIA DEBT RESCHEDULING.

2. FOLLOWING (IN PARA. 4) IS TEXT LETTER SENT SAME 24
CONGRESSMEN ON OR ABOUT 31 JULY.

3. DEAR :

THE SECRETARY HAS ASKED ME TO INFORM YOU OF CURRENT
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DEVELOPMENTS WITH RESPECT TO A RESCHEDULING OF INDIA'S

DEBT TO THE UNITED STATES. AS I NOTED IN MY LETTER OF JULY 31, THE UNITED STATES WAS NOT ABLE TO ACCEPT A WORLD BANK PROPOSAL REQUESTING THE THIRTEEN CREDITORS OF THE AID-TO-INDIA CONSORTIUM TO RESCHEDULE 45 PERCENT OF THE INDIAN DEBT SERVICE FALLING DUE THIS INDIAN FISCAL YEAR. UNDER THIS PROPOSAL, THE UNITED STATES SHARE OF RELIEF WOULD HAVE AMOUNTED TO \$64 MILLION.

AFTER CAREFUL CONSIDERATION OF INDIA'S CURRENT ECONOMIC PROBLEMS AND THE SERIOUS BALANCE OF PAYMENTS DIFFICULTIES

THAT SHE CONFRONTS, THE UNITED STATES HAS ADVISED THE WORLD BANK THAT IT IS WILLING TO RESCHEDULE UP TO A MAXIMUM OF \$45 MILLION. IT IS OUR HOPE THAT THIS OFFER WILL FACILITATE EARLY AGREEMENT BY CREDITORS ON A RESCHEDULING FOR INDIA WITHIN THE CONSORTIUM. EVEN THOUGH THIS REPRESENTS ABOUT 31 PERCENT OF INDIAN DEBT SERVICE FALLING DUE TO THE UNITED STATES, THE WORLD BANK IS HOPEFUL THAT MOST OF THE OTHER CREDITORS WILL PARTICIPATE AT THE 45 PERCENT RATE REQUESTED IN THE ORIGINAL BANK PROPOSAL.

PURSUANT TO THE PROVISIONS OF SECTION 4 OF THE FOREIGN ASSISTANCE ACT OF 1974, THE TEXT OF ANY BILATERAL RESCHEDULING AGREEMENT NEGOTIATED WITH INDIA WILL BE TRANSMITTED TO THE CHAIRMAN OF THE SENATE FOREIGN RELATIONS COMMITTEE AND TO THE SPEAKER OF THE HOUSE OF REPRESENTATIVES AT LEAST 30 DAYS BEFORE ITS ENTRY INTO FORCE.

I WILL BE HAPPY TO PROVIDE ANY ADDITIONAL INFORMATION ON THIS SUBJECT.

CORDIALLY, LINWOOD HOLTON, ASSISTANT SECRETARY FOR CONGRESSIONAL RELATIONS.

4. DEAR :

THE SECRETARY HAS ASKED ME TO INFORM YOU OF THE STATUS OF DISCUSSIONS ON DEBT TAKING PLACE IN THE AID-TO-INDIA CONSORTIUM, AN ORGANIZATION OF THIRTEEN CREDITOR COUNTRIES CHAIRED BY THE WORLD BANK. ALTHOUGH THERE HAVE BEEN NO NEW LIMITED OFFICIAL USE

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UNITED STATES BILATERAL LOAN COMMITMENTS TO INDIA SINCE 1971, THE UNITED STATES HAS CONTINUED TO PARTICIPATE IN CONSORTIUM-SPONSORED DEBT RESCHEDULING EXERCISES BEGUN SIX YEARS AGO. LAST YEAR THE UNITED STATES RESCHEDULED \$29 MILLION OF THE TOTAL \$179 MILLION RESCHEDULED BY THE CONSORTIUM CREDITORS. HOWEVER, INDIA STILL PAID DEBT

SERVICE TOTALLING \$115 MILLION TO THE UNITED STATES.

AT THE TWO MEETINGS OF THE CONSORTIUM HELD THIS YEAR, ATTENTION HAS FOCUSED ON INDIA'S DEBT AND AID NEEDS IN THE LIGHT OF THE COUNTRY'S ECONOMIC PROBLEMS; FERTILIZER, AND ARE DOMINATED BY NEEDS FOR PETROLEUM, FERTILIZER, AND FOODGRAINS AND FOR MEASURES TO MEET BALANCE OF PAYMENTS PROBLEMS RESULTING FROM THE SHARPLY HIGHER COSTS OF THESE ESSENTIAL IMPORTS. I SHALL REFER SHORTLY TO ANOTHER ASPECT OF THE INDIAN ECONOMIC SITUATION, THAT OF ITS NUCLEAR DEVELOPMENT PROGRAM.

OF COURSE, INDIA'S LONG RUN DEVELOPMENT DEPENDS MAINLY ON INDIA'S OWN EFFORTS TO MOBILIZE ITS RESOURCES IN THE MOST EFFICIENT MANNER POSSIBLE. FOR THE PRESENT YEAR, HOWEVER, MEMBERS OF THE CONSORTIUM AGREED THAT 1974 WILL BE

PARTICULARLY DIFFICULT FOR THE INDIAN ECONOMY AND PEOPLE. IN VIEW OF INDIA'S ECONOMIC DIFFICULTIES, MOST CONSORTIUM MEMBERS HAVE ALREADY SCHEDULED INCREASES IN THEIR ECONOMIC ASSISTANCE PROGRAMS TO INDIA.

IN ADDITION, THE WORLD BANK PROPOSED AT A CONSORTIUM MEETING ON JUNE 13-14 THAT THE THIRTEEN CONSORTIUM CREDITORS RESCHEDULE 45 PERCENT OF THE ROUGHLY \$550 MILLION IN INDIAN DEBT PAYMENTS DUE THEM THIS INDIAN FISCAL YEAR, ENDING MARCH 31, 1975. THE PROPOSAL WOULD PROVIDE TOTAL DEBT RELIEF OF \$248 MILLION. SINCE DEBT FALLING DUE TO THE UNITED STATES FROM INDIA THIS YEAR IS JUST OVER \$145 MILLION, THE UNITED STATES SHARE OF RELIEF UNDER THE BANK'S PROPOSAL WOULD HAVE AMOUNTED TO APPROXIMATELY \$64 MILLION.

MOST MEMBERS ACCEPTED THE BANK PROPOSAL BUT THE UNITED STATES DID NOT. THE UNITED STATES STATED A WILLINGNESS TO LIMITED OFFICIAL USE

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RESCHEDULE AT A LEVEL WELL BELOW THE BANK'S SUGGESTED SHARE FOR US, WITH A PLEDGE TO REVIEW INDIA'S SITUATION LATER IN THE YEAR IF SUCH WAS WARRANTED BY ECONOMIC CONDITIONS.

DURING THE CONSORTIUM DISCUSSIONS WITH THE INDIAN DELEGATION MOST OF THE CREDITORS, INCLUDING THE UNITED STATES, REFERRED TO INDIA'S NUCLEAR EXPLOSION. THE GENERAL VIEWS WERE THAT THE EXPLOSION HAD RAISED QUESTIONS OF INDIA'S ECONOMIC PRIORITIES FOR THE FUTURE, AND THAT ITS ECONOMIC IMPLICATIONS WOULD HAVE TO BE CAREFULLY EXAMINED. IN OUR JUDGMENT, NO SIGNIFICANT TRANSFER OF INDIAN ECONOMIC RESOURCES IS INVOLVED IN ITS NUCLEAR EXPLOSION. INDIA'S ANNUAL BUDGET IS ABOUT \$12 BILLION. TOTAL EXPENDITURES FOR NUCLEAR DEVELOPMENT IN FY-1973 WERE \$91 MILLION, THE VAST BULK OF WHICH WAS USED ON NUCLEAR POWER DEVELOPMENT, TO

PROVIDE ELECTRICITY BADLY NEEDED FOR THE INDIAN DEVELOPMENT
EFFORT. THE TOTAL COST OF THE NUCLEAR EXPLOSION, INCLUDING
PRIOR RESEARCH AND DEVELOPMENT, WAS LESS THAN ONE-TENTH
OF ONE PERCENT OF INDIA'S BUDGET.

AT THE PRESENT TIME, THE WORLD BANK IS REPORTEDLY ATTEMPTING
TO REVISE ITS DEBT RELIEF PROPOSAL IN A MANNER THAT WOULD
BE ACCEPTABLE TO ALL CONSORTIUM CREDITORS. I WILL BE
HAPPY TO PROVIDE ANY ADDITIONAL INFORMATION ON THIS SUBJECT
AND WILL KEEP YOU INFORMED OF ANY FURTHER DEVELOPMENTS.
CORDIALLY, LINUOOD HOLTON, ASSISTANT SECRETARY FOR
CONGRESSIONAL RELATIONS. INGERSOLL

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